

ATTACHED TECHNICAL ASSISTANCE

A. Introduction

1. The proposed Asian Development Bank (ADB) capacity development technical assistance (TA) has been requested by the Government of Mongolia to support ADB's proposed Supporting the Credit Guarantee System for Economic Diversification and Employment Project. The Ministry of Finance will be the executing agency for both the TA and the loan project, and the Credit Guarantee Fund of Mongolia (CGFM) will be the implementing agency. The TA is designed to provide the support required to implement the project and will be implemented over 2 years from the loan effectiveness date.

B. Outputs and Key Activities

2. The TA will support the delivery of the loan project's third intended output—the improvement of the quality of the CGFM and of the credit guarantee system. It will help enhance the CGFM's operational, governance, and risk management capacity, as well as its product set. The credit guarantee system legal framework will be enriched to accommodate the operations of a private sector guarantee system. The legal framework governing the CGFM will be reviewed, and amendments to the Law on the Credit Guarantee Fund of Mongolia of 2012 will be proposed to strengthen its collection and foreclosure processes for the enforceability of its guarantees associated with non-performing loans, enhance its governance, operations, risk management framework, and ensure transparency over operations. A roadmap developed under the project preparatory TA will be used as a guide in implementing the improvements needed to the CGFM and the credit guarantee system. Experts and specialists engaged as consultants under the TA will undertake the following tasks:

- (i) **Task 1—Improve corporate governance practices of CGFM.** TA consultants will prepare a detailed delivery plan and draft relevant documentation to help the CGFM: (a) prepare new corporate governance policies; (b) assess how to transfer relevant supervisory board functions to an internal audit unit; and (c) prepare corporate governance training for its shareholders, board directors, and senior and middle-level managers. Consultants will also assist CGFM to make improvements and enhancements to its strategic, marketing, human resources, and training plans. The focus of assistance will be transfer knowledge for the practical application of these plans.
- (ii) **Task 2—Enhance risk management, capacity, and operational practices of CGFM.** TA consultants will prepare a detailed delivery plan and will draft relevant documentation to help the CGFM: (a) enhance the documentation used for credit assessments by product; (b) develop a statistical database; (c) improve the existing credit scoring model; (d) design a credit committee approval authority system; (e) design a new credit manual; (f) develop new credit guarantee policies covering the full credit cycle; (g) develop economic sector appetite statements; (vii) design environmental and gender guidelines and screening processes; (h) establish a unit to manage problem credit guarantee loans; (i) produce new job descriptions and work flow charts; (j) design and deliver training products; (k) provide training to small and medium-sized enterprises (SME) on preparation of applications for credit guarantees; (l) develop updated operational risk policies; (m) develop regulatory risk compliance policies; (n) develop an internal risk grading system; and (o) assess needs and put a program in place for staff development.

- (iii) **Task 3—Improve CGFM’s management information systems.** TA consultants will prepare a detailed delivery plan and draft relevant documentation to help the CGFM: (a) harmonize management information needs with participating financial institutions (PFIs); (b) enhance internal management information system capability and functionality; (c) support preparation of a new suite of portfolio and oversight reports; (d) introduce key performance indicators to measure; and (e) draft and review expressions of interest for the replacement or enhancement of the CGFM’s current information technology and the risk management systems.
- (iv) **Task 4—Enhance financial management practices of CGFM.** TA consultants will prepare a detailed delivery plan and draft relevant documentation to help the CGFM: (a) develop a new chart of accounts and recommend the enhancements needed in accordance with international accounting standards to accommodate the introduction of new products and services; (b) develop reports to extract all the information needed to monitor and analyze its credit guarantee portfolio and operational performance on a daily, monthly, and annual basis; (c) develop an enhanced annual budgeting process to link to a 5-year strategic plan, including monthly variance analysis; (d) review and upgrade external reporting to meet the requirements of Mongolia’s Financial Regulatory Commission and ADB loan covenants and the needs of other parties; (e) develop new policies for finance, accounting, and balance sheet management; (f) develop a set of key performance indicators for management; (g) develop profit and cost centers; and (h) prepare and deliver a capital management plan.
- (v) **Task 5—Enhance the legal framework for the CGFM and the credit guarantee system.** Working with the CGFM, the Financial Regulatory Commission, and other stakeholders, TA consultants will prepare an overall strategy to address legal issues that impair CGFM operations and expansion of the credit guarantee system. The strategy will seek to address needs to: (a) amend the Law on the Credit Guarantee Fund of Mongolia of 2012; (b) explore the feasibility of introducing a direct guarantee system for use by CGFM; (c) draft new implementing regulations under the Law on the Credit Guarantee Fund of Mongolia of 2012 to enable successful expansion of CGFM operations; (d) pass a new charter for the CGFM, as well as new policies and procedures in line with the amended law and regulations; (e) pass a new law facilitating creation and operation of a privately owned and operated credit guarantee entity; (f) pass new laws and amend existing laws on non-bank financial institutions and savings and credit cooperatives, enabling their full cooperation with the CGFM; (g) pass new prudential and regulatory regulations by the Financial Regulatory Commission to support operation of privately owned credit guarantee entities; and (h) prepare legal documentation for new guarantee products, deposit agreements with PFIs, and credit guarantee issuance master agreements with PFIs.
- (vi) **Task 6—Expand the CGFM product set.** TA consultants will prepare a detailed delivery plan and relevant documentation to help the CGFM: (a) develop new credit guarantee products; (b) design risk assessment templates for new credit guarantee product applications; (c) enhance the scope of the basic core credit guarantee product currently in use; (d) develop products that help deliver the loan project’s outputs, targeted gender and rural outreach objectives; (e) develop policies and procedures, templates, and schemes for individual new products; (f) design and hold comprehensive marketing training programs; (g) raise the CGFM’s profile in

Mongolia through promotion initiatives; (h) provide business development training courses to PFIs on credit guarantee products; (i) conduct feasibility studies and prepare designs for alternative new products, such as for payment guarantees, revolving guarantees, performance bond guarantees, export guarantees, tax obligation guarantees, and SME corporate bond issuance guarantees.

- (vii) **Task 7—Deliver enhanced education on the credit guarantee system.** TA consultants will help the CGFM deliver an education strategy to support SME and PFI participation in and use of the credit guarantee system operated by the CGFM. The strategy will cover: (a) marketing of the credit guarantee system to raise awareness throughout Mongolia; (b) training and capacity building of selected PFIs, key stakeholders, CGFM staff, and local agents and representatives in provinces¹ regarding the guarantee system and applicable environmental, social and gender safeguards' issues; (c) creating a coordination mechanism between CGFM's various training and capacity building programs for SME clients with training programs offered by other development partners such as JICA and EBRD, as well as by the government and nongovernmental organizations; (d) designing capacity-building programs for PFIs participating in the CGFM's credit guarantee program following preparation of an initial training needs analysis regarding credit guarantee products, processes, and gender and environmental safeguards; (e) designing a plan for CGFM cooperation with non-mining industry trade associations and professional consulting associations to deliver training to SMEs supporting key target areas including women entrepreneurs, business start-ups, rural and agricultural SMEs; and (f) developing CGFM's e-learning and online teaching content, and formats for credit guarantee products for SMEs in geographically restricted areas.

C. Cost and Financing

3. The TA is estimated to cost \$0.83 million, of which \$0.80 million will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). The government will provide office accommodation as counterpart support.

Table 1: Cost Estimates and Financing Plan
(\$'000)

Item	Total Cost
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (19.5 person-months)	370.0
ii. National consultants (35.5 person-months)	200.0
b. International and local travel	50.0
2. Workshops and training ^b	80.0
3. Miscellaneous administration and support costs ^c	60.0
4. Contingencies	40.0
Total	800.0

^a Technical Assistance Special Fund (TASF-V).

¹ Known as Aimags in Mongolia.

^b Includes outreach training and capacity building for participating financial institutions and staff of the Credit Guarantee Fund of Mongolia, including local agents and representatives in provinces, as well as for key stakeholders.

^c Includes the translation of key documents and interpretation during key meetings subject to prior approval by the Asian Development Bank. May include office operations and other support costs, and the cost of reports and communications.

Source: Asian Development Bank estimates.

D. Implementation Arrangements

4. The Ministry of Finance will be the executing agency for the TA. The CGFM will be the implementing agency. The project steering committee for the TA will be the same as that for the project to which it is attached. The implementing agency will manage and administer workshops and training, and an advance payment facility will be made available. ADB will engage 4 international consultants for 19.5 person-months and 7 national consultants for 35.5 person-months in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Proceeds will be disbursed in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). A firm will be engaged using quality- and cost-based selection and a quality–cost ratio of 80:20. The TA will be implemented over 24 months and is expected to start by 31 March 2016 and to be completed by 31 March 2018. Fluency in English is required of all consultants. An overview of the required consulting services is summarized in Table 2.²

Table 2: Summary of Consulting Services

Area of Expertise	Duration (person-months)
A. International	
1. Credit guarantee specialist	7.5
2. Credit risk management specialist	6.5
3. Financial management and accounting specialist	3.0
4. Legal specialist for credit guarantee and SMEs finance	2.5
Subtotal	19.5
B. National	
1. Credit guarantee specialist	8.5
2. Environmental safeguards specialist	5.0
3. Financial management and accounting specialist	4.0
4. IT system specialist for financial risk management	4.0
5. Legal specialist for credit guarantee and SMEs finance	3.5
6. Social and gender development specialist	3.0
7. Credit risk management specialist	7.5
Subtotal	35.5
Total	55.0

IT = information technology, SME = small and medium-sized enterprises

Source: Asian Development Bank estimates.

² The terms of reference for all consultants are detailed in Section C of the Project Administration Manual (accessible from the list of linked documents in Appendix 2 of the RRP).